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REPORT TO
THE CONGRESS OF THE UNITED STATES

139011

SAVINGS FROM MORE ECONOMICAL USE
OF COMMUNICATION FACILITIES
BETWEEN
ALASKA AND THE UNITED STATES MAINLAND

DEPARTMENT OF THE AIR FORCE
ALASKA COMMUNICATION SYSTEM



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

AUGUST 1967

8/30/67

770221



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-139011

AUG 30 1967

To the President of the Senate and the
Speaker of the House of Representatives

The accompanying report sets forth the results of our review of the **use** of submarine cable and microwave communication facilities leased by the Alaska Communication System--a unit of the United States Air Force--to provide public and private telephone service between Alaska and the 48 States on the mainland.

We sought to examine into whether the Alaska Communication System was using these communication facilities in the most economical manner.

Our review indicated that, as early **as** January 1961, the Alaska Communication System was aware that a microwave facility which served Alaska was more economical to **use** than the cable facility. Savings could have been attained by using the cable facility in a different manner **and**, at the same time, by making greater use of the microwave facility.

It was not until mid-1965, after we discussed this matter with Alaska Communication System officials, that the necessary actions were taken to attain these savings,

Our review indicated that savings of about \$3.9 million could have been realized had the Alaska Communication System taken action in a more timely manner after it first became aware that the microwave was less expensive than the cable.

We attempted to determine from officials of the Department of the Air Force why the longstanding question on the use of communication facilities serving Alaska was not resolved more promptly. They were unable to provide us with any record to show why any decisive action had not been taken to resolve this question prior to our review.

We brought our findings to the attention of the Secretary of Defense in a draft report. We proposed that examinations be made into the management of the Alaska Communication System with a view to making changes needed to ensure that, if similar situations should arise, they be brought to the attention of appropriate officials for timely action,

B-139011

On March 28, 1967, the Department of the Air Force, commenting for the Secretary of Defense, stated that if **generally** concurred with the facts stated in our report.

The Air Force said that it plans to convert **the** Alaska Communication System operation to industrial funding. Also the Air Force will monitor **the** cable contract at **the** highest possible level to ensure the most satisfactory combination of price and service for both the **Government** and the Alaskan public,

Since the ACS operation **has** not yet been converted to Industrial **funding**, action **should** be taken **now** to **strengthen** management controls **so** that situations similar to that discussed in **our** report are promptly brought to the attention **of** appropriate management officials and **re-**solved. With regard to the cable contract, we are in **full** accord that continued monitoring **of** **the** contract is essential and in the best interest of the Government,

Copies of this report are being sent to the Director, Bureau of the Budget; the Secretary of Defense; and the Secretaries **of** *the* Army and Air Force.



Comptroller General
of the United States

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REPORT ON
SAVINGS FROM MORE ECONOMICAL USE
OF COMMUNICATION FACILITIES
BETWEEN
ALASKA AND THE UNITED STATES MAINLAND
DEPARTMENT OF THE AIR FORCE
ALASKA COMMUNICATION SYSTEM

INTRODUCTION

The General Accounting Office has reviewed the use of submarine cable and microwave communication facilities leased by the Alaska Communication System in providing public and private telephone services between Alaska and the United States mainland. The review was made pursuant to the Budget and Accounting *Act*, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). *Our* review was directed primarily toward examining into whether the Alaska Communication System was using these communication facilities in the most economical manner. The review did not comprise an overall examination of the Alaska Communication System.

Our review included examination of available records and discussions with officials of the Alaska Communication System, Alaskan Communications Region, and Departments of the Air Force and the Army. Also we considered audits of the Alaska Communication System by the Air Force Auditor General pertaining to cost studies prepared by the lessor of the cable facility. We were advised, however, that the Auditor General had not examined into the matters discussed in this report.

We did not examine into the reasonableness of the individual contract lease agreements or payments required by the lease agreements*

BACKGROUND

The Alaska Communication System (ACS) with headquarters in Seattle, Washington, provides telephone, telegraph, and other related communication services to, from, and within the State of Alaska for the Department of Defense, other Federal agencies, and the general public. These services are provided within Alaska primarily over facilities operated and maintained by the Department of the Air Force and local communication companies and between Alaska and the United States mainland over facilities leased from commercial communication companies in the United States and in Canada.

Prior to July 1, 1962, ACS was under the command of the United States Army Signal Corps but since that date it has been under the command of the Alaskan Communications Region, Air Force Communications Service, Department of the Air Force.

The facilities owned or leased by the Government within Alaska and between Alaska and the mainland are included in the Defense Communications System which is under the direction of the Defense Communications Agency. However, the specific facilities discussed in this report are leased under contracts for which ACS has administrative responsibility. ACS was assigned this responsibility while under the command of the Army and retained the responsibility after being transferred to the Air Force.

The term "public telephone service" used in this report refers to long-distance telephone service offered to the general public on a per message basis; and "private telephone service" refers to telephone service between two or more specified locations, restricted to the use of the lessee. The Department of Defense and other Federal agencies are the major users of private telephone service between Alaska and the mainland.

The principal officials of the Department of Defense and the Departments of the Army and the Air Force responsible for the administration of activities discussed in this report are listed in appendix I.

FINDING

SAVINGS FROM MORE ECONOMICAL USE OF LEASED COMMUNICATION FACILITIES

The Alaska Communication System (ACS) has made extensive use of a leased submarine cable communication facility to provide public and private telephone service between Alaska and the United States mainland. We believe that substantial savings, almost \$2 million a year compared with payments in fiscal year 1965, **will** be realized as a result of actions recently taken by the Air Force to reduce payments for the cable facility.

Our review indicated that the ACS was aware as early as January 1961 that a microwave facility which served Alaska **was** more economical to use than the cable facility. Savings could have been attained by using the cable facility in a different manner and, at the same time, by making greater use of a microwave facility which also served Alaska. It was not until mid-1965, after our Office discussed this matter with ACS officials, that the necessary actions were taken to attain these savings. Our review indicated that savings of about **\$3.9** million could have been realized had the ACS taken action in a more timely manner after it first became aware that the microwave was less expensive than the cable.

It appears that procedures were ineffective to bring about prompt consideration and resolution of significant problems recognized at Air Force command level where management guidance from higher commands was required. We attempted to determine from Air Force officials why the long-standing question on the use of communication facilities **servicing** Alaska was not resolved more promptly. **They** were unable to provide us with any record to show why decisive action had not been taken to resolve this question prior to our review.

Need for improved procedures to ensure sound economical management of communication facilities used by Alaska Communication System

We found that procedures did not exist at the time of our review to ensure prompt consideration and resolution of the management problems discussed in this report.

We discussed practices regarding utilization of the leased cable facility with cognizant management officials of **ACS**. We were informed that the possibility of reducing leasing costs through the use of microwave circuits, in lieu of cable circuits, **was** first recognized by **ACS** when ACS **was** under the Department of the Army. In January 1961, the Commanding Officer, ACS, advised the Chief, Army Communications Systems Division, Army Signal Corps, that public telephone circuits between Alaska and Seattle could be provided in the microwave facility at about one fifth the cost of providing them in the cable facility.

The Air Force assumed command of ACS in **July** 1962, and the possibility of reducing leasing costs through use of microwave circuits was brought to the attention of the new Commanding Officer in October 1962. He was also advised of a disagreement between various ACS management officials as to whether the actions necessary to achieve these savings could have been taken without violating the terms of the cable lease.

In this connection, some ACS officials expressed the opinion that the cable lease required the Government to maintain at least **36** public telephone circuits in the cable facility and obligated the Government to use the remaining available circuits to the extent possible; whereas other **ACS** officials expressed the opinion that the cable lease did not require the Government to maintain any

public telephone circuits in the cable and did not obligate the Government to lease more than 36 cable circuits. This latter view was supported by a May 1962 legal opinion of the ACS General Counsel.

The Commanding Officer and other responsible ACS officials informed us that this matter had been discussed with officials from Headquarters, Alaskan Communications Region, from Headquarters, Air Force Communications Service, and from Headquarters, United States Air Force, at various times since the Air Force assumed command of ACS but that they were unable to locate any records of these discussions. Further, they were unable to provide us with any record showing that those higher commands had, prior to our review, taken any decisive action to resolve this matter.

The delay of about 4 years in resolving this matter may have been the result of a misunderstanding on the part of ACS officials as to the scope of their responsibility with regard to management of leased communication facilities. Responsible ACS officials informed us on May 5, 1965, that the Defense Communications Agency, Alaska, was responsible for the allocation (routing) of all ACS circuits and was specifically responsible for efficient and economical use of all ACS-controlled circuits,

However, on May 13, 1965, the Commanding Officer, Alaskan Communications Region, advised ACS that he did not concur that the Defense Communications Agency was responsible for efficient and economical use of ACS-leased circuits and also advised that this was the clear and proper function of ACS. He further stated that it was the duty of ACS to make recommendations concerning the most economical use of available facilities.

We attempted to determine from officials of the Department of the Air Force why the long-standing question on the use of communication facilities serving Alaska was not resolved more promptly. They were unable to provide us with any record to show why decisive action had not been taken to resolve this question prior to our review.

We also inquired into Department of the Air Force reviews of performance by the Air Force Communications Service, the Alaskan Communications Region, and the ACS. We were advised on November 19, 1965, that performance of those organizations, as well as all other Air Force organizations, was evaluated as a part of the Air Force inspection system which extended into every field of Air Force affairs. The Department of the Air Force also advised us that the respective commanders of the Air Force Communications Service, the Alaskan Communications Region, and the ACS, in fulfilling their assigned duties, monitor the performance of their own units to ensure that such performance is consistent with the responsibilities of the individual organizational element.

Communication facilities available to
Alaska Communication System

The submarine cable facility--which extends from Ketchikan, Alaska, to Seattle, Washington--was leased by ACS in December 1956 under a multiyear lease agreement. The entire cable facility, which consisted of **36** voice communication circuits, was made available to ACS for use in providing public and private telephone and other communication services between Alaska and the mainland.

Although the Government was not obligated to lease any specific number of cable circuits, the lease required that the cable facility be fully equipped and in use before more than 10 public telephone circuits between Alaska and the mainland were provided by any other facility. In June **1961**, the capacity of the cable system was increased from 36 to 51 circuits but the Government was not contractually obligated to lease or use the 15 additional **circuits**.

The microwave facility, which extends overland from the Alaska-Yukon border to the Alberta-Montana border, became available to ACS in July 1961 under a multiyear lease agreement. This facility originally consisted of 60 voice circuits from border to border, with an additional 60 circuits in the northern portion from the Alaska-Yukon border to Grande Prairie, Alberta; however, **6** of the 120 circuits in the northern portion were reserved for use by the lessor.

In August 1963, an additional 60 circuits in the southern portion--from Grande Prairie, Alberta, to the Alberta-Montana border--became available for service, making a total of 114 circuits available from border to border. In April 1965, the total number of circuits available from border to border was increased to 180.

Provisions of the cable lease differed from those of the microwave lease with respect to payments for the number of circuits used and the purposes for which the circuits were to be used. The Government was required to make payments under the cable lease only if circuits were used; whereas under the microwave lease, the amount of payment was fixed for the first 120 circuits in the northern portion of the system and the first 60 circuits of the southern portion whether or not circuits were used. Payments for the remaining circuits in the microwave facility were based on the number of circuits used. The charge for the latter circuits was less than that for cable circuits and decreased as the total number of leased microwave circuits increased.

The cost of a circuit in the cable facility varied depending on the type of use. For example, during fiscal year 1965, the cost of a public telephone circuit was about \$6,100 a month while the cost of a private telephone circuit was about \$2,500 a month. In contrast, the cost of a circuit in the microwave facility was not affected by the type of use.

Because of these differences in the payment provisions of the two lease agreements, we found that the cost of providing public and private telephone service between Alaska and the mainland could have been reduced by using available microwave facility circuits to the extent possible while limiting the total number of circuits used in the cable facility to the 36 required by the lease agreement and, of the 36 circuits, limiting the number of more costly public telephone circuits to that considered necessary by ACS officials for effective use of other communication equipment,

The total number of cable and microwave circuits used by ACS increased from **73** in July 1961 to 166 by August 1965. Each month

during this period ACS used at least **46** cable circuits although the cable facility contract required that only **36** circuits had to be in use. Moreover, of the **46** cable circuits used, at least **36** circuits were used ~~for~~ the more costly public telephone service. During most of this period, unused microwave circuits were available in sufficient quantities to have permitted ACS to limit its use of the cable facility to the number of circuits required by the contract.

In reply to our inquiries, ACS officials advised us that there were no technical or operational requirements which precluded ACS from limiting the use of the cable facility to the **36** circuits required by the contract. They advised us also that routing of all public telephone circuits over the microwave facility was technically feasible but that it was considered advisable to maintain from **16** to **23** public telephone circuits in the cable in order to effectively utilize control switching point equipment installed at Ketchikan, Alaska. Therefore, our estimate of the savings that could have been realized is based on maintaining up to **23** public telephone circuits in the cable.

We estimate that savings of about \$3.9 million could have been attained while providing public and private telephone service between Alaska and the United States mainland during the period July 1961 through August 1965 had ACS (1) used available microwave circuits to the extent possible while limiting use of the cable facility to the **36** circuits required by the lease agreement, and (2) limited the number of cable circuits used for public telephone service to those considered essential to ensure effective use of equipment at Ketchikan, Alaska. Our estimate is summarized below.

| | <u>Cable lease</u> | Microwave <u>lease</u> | <u>Total</u> |
|--|---------------------|---------------------------|---------------------|
| Lease payments from July 1961 through August 1965 | \$13,425,136 | \$340,445 | \$13,765,581 |
| Estimated cost had ACS limited use of the total circuits and public telephone circuits in the cable facility | <u>9,479,814</u> | <u>370.086</u> | <u>9,849,900</u> |
| Reduction of lease costs | \$ <u>3,945,322</u> | -\$ <u>29,641</u> | \$ <u>3,915,681</u> |

The above estimate does not include the fixed costs of leasing the microwave facility because the microwave lease provides for payment of a fixed amount for a certain number of circuits whether or not the circuits are used. There were no fixed costs for leasing the cable facility. The estimate does include the cost of facilities necessary to transmit messages between the Canadian-United States border and Seattle.

Air Force actions after
commencement of our review

On May 26, 1965, after our inquiries, ACS proposed certain circuit rearrangements, including the transfer of 10 public telephone circuits from the cable facility to the microwave facility in exchange for 10 private telephone circuits, thereby reducing the number of public telephone circuits in the cable from 36 to 26. Before approving the proposed action, Headquarters, Air Force Communications Service, examined into the Government's obligations and commitments under the cable lease and determined that the Government was not obligated to maintain any public telephone circuits in the cable facility. The Department of the Air Force also determined that the action proposed by ACS was in accordance with terms of the cable lease.

In September 1965, after receiving the legal determinations and approval from higher headquarters, ACS arranged for the transfer of 10 public telephone circuits from the cable facility to the microwave facility, leaving 26 cable circuits assigned for public telephone service. We estimate that the transfer of these 10 circuits to the microwave facility reduced the cost of public telephone service by about \$447,000 during the 11-month period ended July 1966.

After clarification by the Air Force of the Government's obligations under the cable lease and after the decision by the Air Force to transfer public telephone circuits to the microwave facility, ACS negotiated modifications to the payment provisions of the cable facility lease. Effective August 1, 1966, the cable facility was Leased at a flat rate of \$1.6 million a year for all 51 circuits, regardless of the extent or type of use. The new lease payment represents a reduction of about \$1.9 million a year compared with cable lease payments for fiscal year 1965.

Air Force comments and our evaluations thereof

We brought our findings to the attention of the Secretary of Defense in a draft report dated January 19, 1967, and proposed that examinations be made of existing policies and procedures as they pertain to the management of ACS with a view to making changes needed to ensure that similar situations are promptly brought to the attention of appropriate management officials and resolved.

In a letter dated March 28, 1967 (see app. II), the Department of the Air Force, commenting for the Secretary of Defense, stated that it generally concurred with the facts stated in the draft report. The Air Force also stated that it would convert the ACS operation to industrial funding on July 1, 1967. The Air Force believes that this action will heighten the cost consciousness of officials at every level of command and will permit management to better evaluate performance against costs. However, the Congress has decided that ACS will not be industrially funded during fiscal year 1968. We were informed by the Air Force that it has not abandoned its plan to convert the ACS to industrial funding. Also the Air Force will monitor the cable contract at the highest possible level to ensure the most satisfactory combination of price and service for both the Government and the Alaskan public.

Other Air Force comments and our evaluation thereof are summarized below.

The Air Force stated that it believed that we did not give sufficient weight in our draft report to management: actions which **the Air Force took** with regard to **the** cable contract during the period in question. The Air Force stated that discussions with the officials involved revealed that a conscious decision was made to pursue reduction of the cable contract cost through negotiation and thereby avoid the possibility of legal action being initiated by the contractor, rather than transfer

circuits out of the cable facility. The Air Force also stated that **it** believed that **it** was proper **for** the officials involved to decide to avoid the possibility of a law suit and to attempt to reduce the cable price through negotfation.

In our draft report we acknowledged that the Air Force successfully negotiated a contract which was **more** favorable to the Government. ~~We~~ must emphasize, however, that we are reporting on the failure of the ACS and the Air Force to take prompt and decisive action to use the cable and microwave facilities in a different manner even though it was known to ACS, since 1961, that the ~~microwave~~ facility was less expensive than the cable.

~~We~~ asked the Air Force to provide us with any record to show why decisive action had not been taken prior to our review. None was provided. In its letter the Air Force stated that circuits were not transferred earlier because a decision had been made to reduce cable costs through negotiation and thereby avoid the **possibility** of legal action being initiated by the contractor. No records have been provided to support this statement. The records do **show**, however, that in **May** 1962 the ACS General Counsel concluded that the transfer of circuits from the cable **was** legally in accordance with the terms of the cable lease. The Air Force Communications Service and the Department of the Air Force arrived at similar conclusions in 1965.

Once these conclusions had been reached, decisive action was taken by the Air Force to transfer circuits **from** the cable facility to the microwave facility. This apparently was done without the fear of legal action being taken. As evidence of this, the Air Force stated in its comments that in July 1965 the cable contractor balked at the Air Force instruction to transfer circuits and **it** was necessary **for** the contracting officer to serve the contractor with a notice to perform pursuant to the disputes clause **of** the

contract. Ten circuits were then transferred from the cable facility to the microwave facility in September.

We believe that action to reduce costs by transferring circuits should have been taken promptly rather than foregoing these cost reductions while attempting to negotiate a lower cable contract price. These were separate, not alternative, courses of action available to management and both should have been pursued in logical order.

It is significant to note that these actions were taken after our inquiring into the matter, and costs were reduced when circuits were transferred from the cable in September 1965. Also, the cable contract price was further reduced in August 1966.

The Air Force stated that, until the development of the competing British Columbia Telephone Company (BC Tel) late in 1964, the cable was the sole available direct communications link to Southeastern Alaska and was one of the two available routes required for critical dual routing. The Air Force stated that, after development of the BC Tel facility, the Air Force was able to transfer 10 circuits to the microwave facility and to arrive at the current and more satisfactory cable contract agreements. The Air Force further stated that it believed that the availability of the BC Tel facility as an operational entity was necessary before the cable contractor could be brought to agree to the type of changes finally negotiated.

The two routes required for critical dual routing were the submarine cable facility which became available to ACS in 1956 and the microwave facility which became available to ACS in 1961. Finally, according to the Air Force, the BC Tel facility was developed in late 1964, thereby providing a third potential source of communications.

No evidence has been provided to support the Air Force position that development of the BC Tel facility in any way affected its contractual relationship with the cable contractor or its

ability to transfer circuits from the cable **to** the microwave. On the contrary the ability to transfer circuits from the cable to the microwave has existed since the microwave first became available to ACS in July 1961. The savings attainable by transferring circuits from the cable to the microwave however, were not realized, until September 1965, and then only after the Air Force took decisive action which resulted in the determination that the transfer of circuits could be accomplished under terms of the cable lease.

Although the development of BC Tel introduced an additional (third) route for communication between Alaska and the mainland, it was not, in our opinion, a communication facility that could be considered to be in competition with the previously developed submarine cable or microwave communication facilities. As evidence of this, ACS was precluded by contractual agreement with the cable contractor from using facilities other than the cable or the microwave to provide public telephone communications between Alaska and the mainland.

It was not until August 1966 that the contractor agreed to the contract modification necessary to make this facility available to ACS for the purpose of providing public telephone service between Alaska and the mainland. Negotiation of the contract modification was completed at about the same time as the negotiations which resulted in the cable facility being made available to ACS for a flat fee of \$1.6 million a **year**.

The Air Force noted that we used the incremental cost of circuits in the microwave facility in developing a cost comparison between the cable and microwave lease agreements. The Air Force stated that it believed that a more valid basis of costing the comparison would be to include an allocated portion of the nonrecurring costs of the lease of circuits in the microwave facility.

A principle which we believe should be strictly followed when making cost comparisons of the type found in this report is to consider only incremental costs, because inclusion of fixed costs results in the overstatement of the costs of the actions being compared. The microwave lease provided for payment of a fixed amount for a certain number of circuits whether the circuits were used or not. Sound management principles dictate that only the additional expenses to be incurred as a result of expanding use of the microwave facility should be considered in determining the cost of the additional service received.

The Air Force stated that, since the cable contractor is compensated for its services on Alaska calls in the contiguous 48 States on the basis of actual route/message/minute miles, the more public telephone circuits which go over the microwave route, with the attendant backhaul to the switching point in Seattle, the higher the route mile figure becomes. Thus, it concluded, many of the savings from transfer of public telephone circuits from the cable to the microwave facility are lost in the land haul.

As stated on page 11 of this report, we have included the cost of facilities necessary to transmit messages between the Canadian-United States border and Seattle. It is significant to note, however, that in August 1966, the land-haul contract was negotiated downward to provide a more favorable price to the Government.

Conclusions

We believe that savings of about \$3.9 million could have been attained had more timely action been taken by the Air Force to utilize, in a more economical manner, the cable and microwave facilities connecting Alaska to the mainland.

We have been advised by the Air Force that it plans to convert the ACS operation to industrial funding. Also the Air Force will

monitor the cable contract at the highest possible level to ensure the most satisfactory combination of price and service for both the Government and the Alaskan public.

Since the ACS operation has not yet been converted to industrial funding, action should be taken now to strengthen management controls so that situations similar to that discussed in our report are promptly brought to the attention of appropriate management officials and resolved. With regard to the cable contract, we are in full accord that continued monitoring of the contract is essential and in the best interest of the Government.

APPENDIXES

PRINCIPAL OFFICIALS
OF THE DEPARTMENT OF DEFENSE AND
THE DEPARTMENTS OF THE ARMY AND AIR FORCE
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

| | | <u>Tenure of office</u> | |
|--|--|-------------------------|-----------|
| | | <u>From</u> | <u>To</u> |

DEPARTMENT OF DEFENSE

SECRETARY OF DEFENSE
Robert S. McNamara

Jan. 1961 Present

ASSISTANT SECRETARY OF DEFENSE
(Installations and Logistics):

Paul R. Ignatius
Thomas D. Morris

Dec. 1964 Present
Jan. 1961 Dec. 1964

DEPARTMENT OF THE ARMY

SECRETARY OF THE ARMY:

Cyrus R. Vance
Elvis J. Stahr, Jr.

July 1962 Jan. 1964
Jan. 1961 June 1962

ASSISTANT SECRETARY OF THE ARMY
(Installations and Logistics):

Paul R. Ignatius

May 1961 Feb. 1964

DEPARTMENT OF THE AIR FORCE

SECRETARY OF THE AIR FORCE:

Dr. Harold Brown
Eugene M. Zuckert

Oct. 1965 Present
Jan. 1961 Sept. 1965

PRINCIPAL OFFICIALS
OF THE DEPARTMENT OF DEFENSE AND
THE DEPARTMENTS OF THE ARMY AND AIR FORCE
RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT (continued)

Tenure of office
From To

DEPARTMENT OF THE AIR FORCE (continued)

ASSISTANT SECRETARY OF THE AIR FORCE
(Installations and Logistics):

| | | |
|-------------------|-----------|------------|
| Robert H. Charles | Nov. 1963 | Present |
| Joseph S. Imirie | Apr. 1961 | Sept. 1963 |

DEPARTMENT OF THE AIR FORCE
WASHINGTON

OFFICE OF THE ASSISTANT SECRETARY

28 MAR 1967

Mr. Hassell B, Bell
Associate Director, Defense Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Bell;

The Secretary of Defense has asked me to reply to your letter of January 19, 1967 providing copies of your draft report on "Savings from More Economical Use of Communications Facilities between Alaska and the United States Mainland" (OSD Case #2553).

Briefly, the Draft Report finds that despite the fact that officials of the Alaska Communication System (ACS) had been aware since 1961 that substantial savings could be achieved by transferring public telephone circuits from the American Telephone and Telegraph Company's (AT&T) Ketchikan to Seattle submarine cable to the Canadian National Telecommunications/Alberta Government Telephone microwave system through central Canada (the "BMEWS B Route"), no action was taken until September of 1965 to effect such savings. The Report concludes that this inaction indicates serious deficiencies in the management of the ACS.

While the Air Force generally concurs in the facts stated in the Report, we believe that the Report does not give sufficient weight to the other management actions which the Air Force took with regard to the AT&T cable contract during the period in question, and also to the possibility that action was not taken to transfer the circuits because such transfer was reasonably determined not to be worth the risk. There is attached hereto a summary of the other actions taken by the ACS and by higher headquarters with respect to the cable contract during the period in question. This summary indicates the continuous efforts at all levels of command to reduce the costs of the cable contract.

Until the development of the competing British Columbia Telephone Company (BC Tel) facility late in 1964, the cable was the sole available direct communications link to Southeastern Alaska, and one of the two available routes required for critical BMEWS dual routing. The cable remains to this day a more satisfactory system from an operational standpoint than the BC Tel facility. After the development of the BC Tel facility, the Air Force was able to transfer ten circuits to the BMEWS B Route and to arrive at the current and more satisfactory agreement concerning the price of and circuitry in the cable. We believe the facts demonstrate that availability of the BC Tel facility as an operational entity was necessary before AT&T could be brought to agree to the type of changes finally negotiated.

After the Air Force took over the operation of the ACS in 1962, a special team visited the ACS from Headquarters, Air Force Communications Service. As a result of this visit, the ACS sought to renegotiate the cable contract. Initially, AT&T objected to such a renegotiation relying on a provision of the contract which permitted negotiation only at the beginning of the Government's fiscal year. When negotiations finally did begin in August of 1964, AT&T delayed in furnishing the ACS with adequate cost data. When this data was finally delivered and audited, the differences between the audit report and the AT&T figures were so great that future negotiation seemed impractical. At this point Headquarters, United States Air Force, began to take an active role in the contract negotiations. Eventually AT&T agreed to the flat rate lease arrangement described on page 11 of the Draft Report.

With respect to the possible transfer of circuitry from the cable to the BMEWS B Route, it is clear that AT&T never agreed that the cable contract required that only 36 voice grade circuits (as opposed to public telephone circuits) be kept in the cable. This position is reflected, among other places, in the Contracting Officer's conversations in 1961 with AT&T officials of which he made record memoranda, in the extreme difficulty which the ACS had in the summer of 1961 to transfer even five message telephone circuits to the BMEWS B Route, and in AT&T's refusal in July of 1965 to move ten circuits from

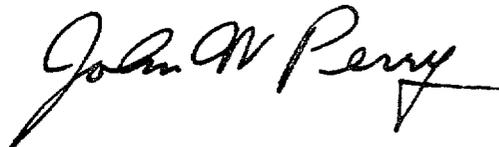
the cable to the BMEWS B Route. The Company relied on an ambiguity in the wording of the contract and on a negotiation history which indicated that the Government would see the Company through its investment in the cable.

Granted that the AT&T position was known to the ACS and to higher management officials within the Air Force and granted that the legal question was not free from doubt, we believe that it was proper for these officials to decide to avoid the possibility of a law suit and to attempt to reduce the cable price through negotiation.

In summary, we cannot concur that the failure of Air Force officials to take the actions recommended by the GAO indicates serious deficiencies in the management of the ACS. Some decisions are better made slowly; in this case prompt action along the line suggested might well have resulted in protracted litigation or in the impairment of service to and from Alaska. We are, however, about to convert the ACS operation to industrial funding commencing July 1 of this year. This action, we believe, will heighten the cost consciousness of officials at every level of command and will permit management better to evaluate performance against costs. Further, we will continue to monitor this contract at the highest possible level to ensure the most satisfactory combination of price and service for both the Government and the Alaskan public.

While the above states our major objections to the rationale of the Report, there are attached specific comments concerning the details.

Sincerely yours,



JOHN W. PERRY

Deputy for Transportation and Communications

Attachments

GAO note: The two attachments to this letter are not included. However, pertinent comments contained therein have been incorporated in the body of our report. Several comments in the attachments were cross-referenced to specific pages and paragraphs of our draft report and therefore are meaningless and confusing when related to the pages and paragraphs of this report.